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C O N F I D E N T I A L LILONGWE 000477

SIPDIS

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TAGS: ETRD PREL ECON MI
SUBJECT: MALAWI UPDATE ON AGOA III

REF: STATE 120038

Classified By: Pol/Econoff Marc Dillard for reasons 1.5 b/d.

¶1. (C) Per reftel request, failure to extend the African Growth and Opportunity Act's (AGOA) third-country fabric provision, if permanent or even long-term, would likely have a significant impact on Malawi's garment exports to the United States. Of the five companies currently exporting under AGOA, the two largest are both Taiwanese and import all of the fabric they use from Asia. Managers at those companies have told Econoff that the end of the third-country fabric provision would force them to reorganize their production and to consider pulling out of Malawi. Malawi's primary producer of textiles is currently restructuring as part of the country's privatization program, and has not produced fabric for about six months. The lapse of the third-country provision would therefore immediately raise production costs, as no local alternatives are available, and regional alternatives would be logistically difficult to obtain. (Comment: the Taiwanese authorities are keen to see the companies remain in Malawi because Malawi has diplomatic relations with Taiwan, and inducements from the authorities might keep the companies here. Continued expansion of production and job growth, however, would be unlikely.)

¶2. (C) Although there is significant U.S. investment in Malawi, it is not highly visible. To the average Malawian, AGOA is Malawi's economic relationship with the United States, and therefore layoffs or company closures among AGOA exporters would be seen as a step backwards in bilateral relations. Given that a lapse of the fabric provision could also make the current restructuring of Malawi's primary textile producer appear to be a failure, ending of the fabric provision could also undermine the country's privatization program and USG efforts to support private sector growth over state-run companies.

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